

PROBLEMS AT PYNE GOULD - AGM 30TH OCTOBER

Editors note: Three companies, closely related, have exhibited real governance problems arising from related party transactions. Farming Systems Uruguay pays management fees to PG Wrightson which in turn is 20% owned by Pyne Gould Corporation. After reading Margaret Murray's summary of the Christchurch meeting, Bruce decided to forgo his usual column and allow us to use this instead. However, readers need not be alarmed. Bruce will be back and if you wish to read his latest thoughts, you should search his blogs on the Stuff Website.

The Company

The present structure of Pyne Gould Corporation (PGC), is as a holding Company for MARAC (100%), Perpetual Trust (100%) and Perpetual Asset Management (100%). PGC also owns about 20% of PGG Wrightson (PGW) Ltd.

Chairman's Address

Chairman, Maling gave his address (available from their website). We sat there and listened while about 270 very quiet shareholders were informed why they had lost significant amounts of money; about \$3.00 per share. Essentially the Board, with identical members for PGC and MARAC had no idea of what was going on. The last part of the address referred to Board changes, the unity of the Board and that the "...changes are all about responsible governance."

Comment

There was antipathy from the Chair to my questions, with no apparent respect for the rights of shareholders as owners of the Company. As a representative of shareholders not present at the meeting, I persisted against his considerable opposition. It was interesting to note the "shushing" and "tut-tut" from some of the "old Canterbury monied" shareholders whilst I was speaking. As one prominent shareholder told me later, "It's not good form to criticise." So does this attitude explain why people have just given the Company another \$267m? The figures suggest that much is from new shareholders. Is it because the long time family supporters are now wiped out? And the Chairman mentions responsible governance?

How is it that this apparently experienced Board failed their shareholders to such a degree? I cannot see that the credit crunch could have had anything particularly to do with MARAC lending investors' money on speculative property deals. There would not be much point in looking at the governance experience of the Directors who have resigned, except that three of them are now making decisions about a new Board before they go! A barrister; a past managing director of the company and one with financial market experience? What about those who are left? Obviously there is potential for one to chair the new Board? Irvine has been a director of some 55 (46 current) companies since 1992; Kerr 75 (66 current) companies since 1999 (that's the New Zealand ones) and

Mogridge 95 (23 current) companies since 1992. Given their recent history with this company, I wonder whether experience counts.

Have the members of this Board not read the document from the Securities Commission, "Corporate Governance in New Zealand, Principles and Guidelines" or the Handbook which was published in 2004? Especially Principle 6 - The board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks. What happened to strategic planning, risk assessment, monitoring, proper authorisations and fiscal control by the Board? Do they even recognise the statement that "publicly owned entities have particular corporate governance responsibilities to their shareholders"? Admittedly, the homily (see below) "Look after family first, cuzzies second and friends next" was said by only one of the potential candidates for Chairman, but my question to that individual and the rest of the Board is: To whom is your fiduciary responsibility?

NZSA Questions

1. MARAC is a 100% subsidiary of PGC. From the various reports available, I cannot work out which company is to be registered as a bank – PGC or MARAC or the group? In the Shareholder briefing – September 2009, Page 4.5 states "Capital raising is central to PGC's medium term goal of becoming a publicly listed bank..." while on Page 8 "...proceeds applied as follows... \$35m equity injection..... position MARAC to meet the requirements to become a registered bank.

Question: Which entity is planning to register as a bank? Answer: MARAC

2. The recent rights issue had an 89% result with a substantial number of rights traded before the close date. The PGC share price has been flat during October. One could deduce that shareholders are not happy with the Board.

Question: Does the Board have any comment about what they might learn from this? This was answered by the actions of the Board. Steel stepped down immediately following the meeting. Maling, Elworthy and Montgomery are all standing down after replacements are appointed. Kerr, Irvine and Mogridge remain.

3. Registering a bank in NZ

The Reserve Bank (RB) checks all nominated office holders only in terms of unsuitability for the nominated office. It is Board's responsibility to ensure the integrity, skills and experience required of nominees for management. As they have been preparing to become a registered bank, and the Board of PGC/MARAC is identical, they must have been aware for some time of the RB requirements relating to registered banks and must have been busy ensuring that their company and its subsidiaries did have the requisite integrity, skills and experience. In 13 August Press release – PGC Chairman Maling "...rating adjustment of MARAC by Standard & Poor's was both unexpected and disappointing..." while in the Shareholder Briefing and Prospectus - The recent history of MARAC "...straying into property development..." and ending up with impaired loans is obviously now being mitigated by the appointment of the new CEO and Management Staff and the plans to consider the Board.

Question: So why did MARAC end up in this position after all we have heard about preparing for a banking role? What happened to Principle 6 of the Securities Commission Guidelines – appropriate processes to identify and manage potential and relevant risks? How are you going to ensure that that the Board is sufficiently skilled to meet the requirements of oversight of a bank with this recent past? Answer: A banal answer was given.

4. The PGC Audit report of 28 August 2009 states that, while the Directors consider that the matters relating to the MARAC rating downgrade will be satisfactorily resolved, the validity of the “going concern” assumption on which financial statements are prepared absolutely depends upon this.

Question: Does the Board now consider that MARAC will meet the covenants of the Syndicated Banking Facility and what are their expectations about regaining an investment grade rating?

Answer: Yes. That it will be regained at some point in the future.

5. On 13 August, the PGC Press Release identified that Torchlight Credit Fund was to acquire the impaired property development loans of MARAC. I see that Torchlight Credit Fund Holdings was incorporated on 9 September and renamed on 10 September to Real Estate Credit Limited. It is 100% owned by Perpetual Asset Management. Yet in the Shareholder Briefing dated September 2009, \$125m of the capital raising is allocated to fund the sale of certain MARAC property loans to MARAC Financial Services which is owned by PGC. The PGC Media Release of 23 September states that they will end up with Real Estate Credit.

I think I have sorted out that the impaired loans will be firstly transferred to MARAC Financial Services for \$175m; then to Real Estate Credit for \$90m; then possibly to Torchlight Credit Fund. I understand that MARAC will still have some liability until all these are sorted out.

Question: I am not sure why all these transfers are required, except that perhaps they remove an impediment to MARAC becoming a registered bank. There is lack of clarity over the purpose. Is it for the bank license or the credit rating? Answer: To clear the balance sheet for MARAC.

6. The EPAM acquisition from Kerr led to PAM, now chaired by Kerr. The Shareholder briefing says EPAM will receive \$4.5m to subscribe for new shares in the rights issue conducted by EPIC.

Question: Do they mean PAM? And, What is the actual benefit to PGC shareholders, when this convulsion is going to dilute holdings? Answer: Not answered.

7. PGC has a 20.7% shareholding in PGW. The prospectus identifies the risk of a change from equity to investment accounting for PGC as a result of dilution. Question: Has any consideration been given by the Board to intentions regarding the PGW holding? Answer: Retaining meanwhile.

Other questions/comments:

One shareholder made an astute statement about the performance of the company and its opportunities – as one of the few surviving financial organisations – “So could you please make sure you do a good job of it for the shareholders?”

And finished his remarks by listing:

- We need more frequent updates on performance (monthly updates as an example)
- What is the advantage of being a bank? And he cited Warren Buffet’s comment about “standing out like a man in a tuxedo in a nudist camp” (Amongst some laughter from the audience)
- 12 months ago you were “not aware” that Marac was in trouble?
- Are you going to look at acquiring other finance companies?

One shareholder became miffed when asked to reduce his list of questions and, as a response to one or two of them, was firmly instructed to phone Greenslade for an answer. The Chairman, clearly getting quite short with the questioner who continued by saying “Last AGM the Chairman said the Company (Marac) had no properties, therefore, how come 12 weeks later Marac had “impaired property loans”?

Another shareholder asked “Where does the money go?” in terms of impaired loans. The Chairman pointed out that the company has to record a loss in annual accounts – but over time (outside the annual reporting period?) expects to get most of it back at some stage – but under the loan book of the “new” company (Presumably Torchlight).

David Tripp, private shareholder: A question about the Board structure and current resignations. Response was that the company intended to fill the gap vis a vis PGC and PGG Wrightson in the Boards...(We assumed that meant: Directors acceptable to both companies).

A shareholder questioned the PGW v SFF debacle. The Chairman’s response was “Why didn’t you ask that question yesterday (at the PGW AGM) and the shareholder responded promptly “I was in Christchurch yesterday – and the meeting was in Auckland. If I had been there, I would have asked the question.” And the Chairman then remarked. “I cannot respond to your question about PGW as I have resigned.... Then went on to pretty much answer the question anyway, describing how the deal failed because of the collapse of the world financial markets over that particular week. And then the shareholder stated, “We have seriously diluted shares and no dividend... Will the Directors refrain from receiving their remuneration?” To which Kerr responded. He gave the audience a history lesson about PGC and SCF – the two financial, non-banking organisations that have survived several crises in the 1920’s, 1950’s (?) 1970’s where similar numbers of other financial organisations toppled!). And Kerr really got into his act. He described how Hubbard had lent him 5-M over a phone call – a loan that no banks were prepared to offer... And “so I’ve returned the favour...” Quickly adding a comment to the effect that it was under firm financial strictures but then added – as I would expect SCF would do with me....”

Kerr pointed out he owned quite a few shares in the company and he expects and hopes for a dividend stream. He also commented the Board does not allow him to charge up his hotel expenses, and that he, frankly, does not even know what his Board remuneration is..... And stated “No, Marac is not seeking to acquire SCF, the two companies are still competitors. We “helped SFC out on our terms – just as they would do to us....”

But Kerr never did answer the question about Board remuneration and Board members taking a pay cut like the shareholders have. At some stage the Chairman hurrumped about the need to replace several Board members and acquire new Board members with specialised skills.... And rewards....?

Margaret Murray (proxyholder), Tim Kerr, Max Smith, Evan Pritchard – Canterbury Branch

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QUESTION TIME AT THE AGM

During my participation at a number of AGMs this year promoting the NZSA to attending shareholders, I have had the opportunity to observe how the different meetings have been chaired, with particular reference to that important part of the meeting where the Chairman invites questions from the floor.

This is the once a year opportunity for shareholders, the owners of the company, to raise issues which have not been dealt with during the preceding addresses or reports, or with which they are dissatisfied. I have noticed that many of the better questions asked have come from NZSA members.

What a boost it would be to how the NZSA is perceived if our members, on introducing themselves by name as a shareholder prior to asking their question, were to also say “I am a member of the New Zealand Shareholders’ Association”. You can imagine the impact this would have on the company’s board, its shareholders, and any media reporters there present, if every questioner mentioned their status as an NZSA member.

I encourage you to do so, and be proud of it.

Patrick Flynn

BEHIND THE SCENES

Members may not appreciate the work that goes on “behind the scenes” at your Association. This work never makes headlines. It rarely even makes the newspapers, but is an area the Board has identified as being critical to ensure the small investors voice is heard.

This is the first in a semi-regular series that will illustrate some of the activities that have kept board members busy. The intention is not to report in detail but simply illustrate the ever increasing influence and scope of the NZSA. These activities are in addition to the regular contact we have with companies/directors and are strategic rather than being focussed on specific issues. They are yet another way that the NZSA provides exceptional value to its members and punches well above its weight.

- We were asked to make verbal submissions to the **Capital Markets Development Taskforce** (CMDT). We have had 3 meetings in total, including one with a subcommittee and one with our full board. This is certainly the most important advisory group appointed by the government as its recommendations will form the basis of a complete revamp of securities law and regulation. It is notable that the Institute of Directors, NZ Institute of Chartered Accountants and Chartered Secretaries NZ were not asked for face to face meetings or even written submissions.
- Written discussion paper to the **CMDT**. This major exercise was completed in conjunction with **CSNZ**. A copy is posted on the NZSA website.
- The NZSA recently met and presented this paper to **Commerce Minister** Simon Power. We received excellent feedback and have been invited to have quarterly meetings which will ensure the voice of small investors is heard at the highest levels.
- NZSA via Bruce was asked to submit to the **Prada/Walter** report. This was a major review of the Securities Commission and it recommended many changes – a large number of them directly reflecting our input.
- We attended a combined meeting with **CSNZ** and the **IOD** to canvass areas of mutual interest. A second meeting has since been held.
- We have had a meeting with **NZICA** in Wellington and opened an ongoing dialogue which includes providing input into their submissions to government where appropriate..
- Bruce was invited to address the **Listed Companies Association** in Wellington where he outlined the NZSA's views on a range of important issues.
- We have met with two members of the **Securities Commission** to give our views on the way the regulatory environment should function.
- John met with **Springboard**, a group promoting pathways for younger (under 45) people to become Directors. We have agreed to use our joint influence to advance this very worthy goal.
- NZSA has been invited by **NZX** Chair Andrew Harmos to have regular meetings. The first of these occurred in October.

John Hawkins

Editors Note: We have highlighted John's strategic contacts to show the range of organizations with whom we are now in contact. John's formal submission, subsequently discussed with Simon Power is highly regarded, simple to implement, and an important move in our advocacy.

BOARD REPORT

The board always reviews financial, management, Scrip and Corporate liaison reports, but the following points are noted for the general interest of members.

1. Branch attendance: The attendance of Bay of Plenty and Wellington representatives at our October and November meeting provided a good chance to update the board with activities in those areas.
2. Grant Diggle has been coopted by the board. Grant was until recently CEO of NZ Institute of Chartered Secretaries and has a wide experience of the legal and financial obligations of boards of directors. There is no doubt his expertise will be of benefit to NZSA.
3. Research into individual companies. The board accepts that there is a need to have access to long term performance records of individual companies, as distinct from industry or market-wide research.

Such a scheme is being evaluated by directors at present with a view to introducing a comprehensive database of hard and soft information available through our website.

There is every possibility that this will be in a “members only” area as the directors see this being a powerful value-added service to those who support the NZSA.

We hope to provide details early in 2010 and Alan has been given the task of liaising with members interested in contributing to this initiative once the proposals are finalized.

Alan Best

A PERSONAL RECORD OF MATTERS PERTAINING TO MY ESTATE

Remember to order your copy of the above booklet direct from Allen Smith, PO Box 8004, Cherrywood, Tauranga, 3145. Please make your cheques out to NZ Shareholders Association, Bay of Plenty Branch. It's only \$5, and a sample is available from your local branch committee.

Allen Smith

THE GLOB 2009

This year, with further finance company collapses, surprise recapitalisations and stunning levels of stupidity and denial, the NZ Shareholders Association was spoilt for choice in selecting Glob candidates, The winner however, stood out from the rest for a number of reasons.

Rick Christie is a professional director and company chairman whose track record, on paper at least, would seem to preclude him from even being considered for this award. Twenty one years with BP in management and board positions, stints as MD/CEO of Tradenz, Cable Price Downer and investment company Rangatira, member of the Prime Minister's Enterprise Council from 1991 to 1996, and a vast number of directorships including TVNZ, the NZSO and more recently Tourism Holdings, Wakefield Health, Ebos and Provenco – Mr Christie has filled a veritable plethora of plum public and private sector roles. Sadly, despite all this experience and the business acumen that one would like to believe led to these appointments, Mr Christie's performance as Chairman of Provenco leaves much to be desired.

The NZSA during 2009 wrote to 19 listed companies concerning the apparent and likely default of some of those companies. Provenco was a company that looked as if it should have been put down and shot as long ago as 2007. Yet in some miraculous way it had limped on, protesting that all was well including making disclosures to trustees for capital note holders.

Now certainly this company's vulnerability should have been obvious to any casual observer. However it does behove the directors of such companies to be forthright in the disclosure of their position. The continuous disclosure rules require this.

On the 17th June 2009 Rick Christie wrote:

“In relation to our covenants at June 2008 as stated in our Financial Statements note 17, we were not in compliance. However the bank had agreed to waive the breaches. As at today's date we are in compliance with the terms of our banking covenants as they relate to current facilities.”

At no time since 1 July 2007 has Christie or his board ever advised shareholders or the exchange of this breach. Such a cavalier disregard for the continuous disclosure rules on its own, qualifies him for consideration of the Glob for the year.

In the same letter he wrote:

“Having recently approved the three year plan and 2010 budget, the Board has confidence in the long term future for the restructured company.”

On the 3rd of August 2009, just over 6 weeks later, that company was in receivership and the shareholders and capital note holders lost all their investment. This complete detachment from reality or deliberate deceptiveness makes this pillar of the community a stand out winner.

THE BEACON 2009

This year Michael Hill takes his place amongst our business stars. Michael’s jewellery business was founded in a small Whangarei shop in 1979, was listed in 1987, and today boasts 1760 staff, 3000 shareholders, and 239 stores, spread throughout Australia, New Zealand, Canada, and USA. One only has to read The MHI annual report to see the emphasis placed on ethical conduct towards customers, associates and shareholders. This chairman is overseeing the organic growth of the business and is resisting the call to diversify, and spread talent too thinly.

Michael is even better known for his community sponsorships. The International Violin Competition he sponsors, has now achieved a world-wide profile, while the New Zealand Golf Open in Queenstown attracts renowned golfers. The company also supports Cancer research, and numerous local projects. The proceeds of his book Toughen Up, now in its 4th printing, are donated to Cure Kids (the Child Health Research Foundation).

Michael is inspiring his company to become a global brand. His advice to managers is: “Hunt the right people and help them to become better.”

“Push the limits – If there is a better way, find it! Challenge bureaucracy and red tape. Speak up! Constructive questioning of our methods, policies, and thinking is healthy.”

If the New Zealand economy is to pay its way again, it will need to emulate the approach that Michael has employed with such success.

Alan Best

COMPANY AGMs AND PROXIES

PG WRIGHTSON AGM - 29TH OCTOBER

A lively meeting well attended by shareholders, who were concerned over the huge loss of value and the \$50 million penalty fee paid to Silver Fern Farms. The main issues resulting from the formal part of the meeting and from questions were:

Silver Fern Farms incomplete transaction

Considerable time spent on the inability to complete the SFF transaction. The full Board took the responsibility and apologies were given to shareholders for the loss of value.

What came to light for the first time was that the SFF Board insisted that the deal be an unconditional one, BEFORE they would take the deal to their farmers to vote. Because there was a high threshold of 75% for agreement by farmers, and because they had conditional agreements with ANZ Bank, the Board agreed. Bearing in mind that the agriculture sector at that time was vibrant – the Board wanted the meeting to realise that the complete collapse of the financial markets was not envisioned. One week after the vote, Lehman Brothers collapsed and PGGW was unable to raise the funds to settle the deal.

Agria

Pressed to raise capital and strengthen PGW's balance sheet, the Board signed with Agria, who will invest \$36 million for a 13% shareholding stake. Directors and senior management undertook due diligence, and, when they went to China to meet with Agria, received full disclosure over the New York Exchange listing and the late filing issues. The information has to remain confidential, but PGGW directors are comfortable with the explanation given to them by Agria. PGW confirmed the funds were sitting in a trust account ready to be paid over, when the rights issue was completed. The Chairman emphasised that the strategy for the Agria shareholding is not just the investment of funds but the total value proposition, with the objective to build a long term relationship with Agria and benefit from China's emergence as an economic force.

NZ Farming Systems Uruguay and other Uruguay interests

A question from the floor requested to know the total investment by PGGW into Uruguay and the projected ROR. The figures were not available because the Rural services, and Seed Division's accounts included a significant revenues from Rural trading in Uruguay and other parts of South America, while the earnings from Rural Equities was included in the Financial Services accounts. On pressing for an amount of total capital invested in Uruguay, again there was not a definitive answer but PGW stated that Uruguay would be an emerging part of the business.

Governance

John Calvin, a Christchurch developer who has nominated himself as a new director, put three questions to each director asking what motivated them, what they brought to the table and what level of voluntary reduction in pay they would be prepared to take until shareholder wealth was restored.

None of the directors answered the third question, although chief executive Tim Miles pointed out that management and director fees had been frozen for a year.

PGW assured the meeting that there had been significant changes in the Board composition, but shareholders were concerned about the independence of directors representing Pyne Gould Corp and RPI – particularly with regard to a need to raise capital which would dilute their shareholdings. The meeting was assured that these directors excluded themselves from any decision regarding these transactions. There is no doubt that the governance platform and board composition will change in the future, and Agria have the right to nominate up to 2 directors as they have become another significant shareholder. Selwyn Cushing read a prepared biography of Agria's CEO, Xie Tao, and it was obvious that he was being mooted as a new director.

Editor' note: Sam Maling of PGC has resigned after assuring the meeting that he was there for the long haul.

Keith Smith came back as Chair, after Craig Norgate stepped down and after the SFF deal fell over. He is a specialist in "corporate recovery", the euphemism for receiverships. He was very sensitive to an observation on his Chairing both Uruguay and PGGW (conflicted), and said his position as Chair of PGGW would be reviewed along with other board changes, as soon as the capital raising was complete.

Future

PGGW is hoping to announce plans for a rights issue to the tune of about \$130 million in the next couple of weeks.

Agriculture will be strong in the medium term

PGGW well-placed to take advantage of increased need for global food production

Farmer sentiment appears to be improving on higher dairy prices and high forecast payout

The high NZD remains a concern.

Tim Miles impressed with his vision and command of activities but is noteworthy that he is paid \$1.6m while his nearest reporting officer is paid \$675k. The gap is too large, the succession is not there, and the governance issues remain.

Resolutions

Voting was conducted by poll another measure to assure shareholders, although the outcomes were a foregone conclusion. Messrs Smith, McConnon, (opposed by nearly 9 million votes) and Thomas were elected while Calvin (scoring 1.78% of the vote) was defeated. It is hard to see that Thomas and McConnon could offer any more than Calvin, although some farmer representation is still considered essential

Jacquie Staley

NZ FARMING SYSTEM URUGUAY - 15TH OCTOBER

In operation for only a very short time (this only their third AGM,) and in a fiercely demanding business environment way beyond the capacity and ability of most NZ business managers, they are up and going with 26 (out of 45 planned) milking sheds now in operation. They have faced falling dairy prices and a once in 30 year drought which has heavily impacted on milk volumes. The company remains positive for prospects in the medium term; progress has been solid and full production remains very much in-sight by spring of 2013 ; the current operating loss is in line with estimates and the work team is settling well with every expectation of on-going progress.

A very clear conflict of interest occurs between the board of PG Wrightson chaired by Keith Smith and the board of NZFS also chaired by Keith Smith. NZFS a public company is paying a management fee as follows to PG Wrightson Asset Management part of the finance division of PGW.

“The Manager was paid a Fee of 1.5% per annum on the gross asset value of the Company until 30 June 2008, thereafter reducing to 1.0% per annum. The gross asset value of the Company will be calculated by the Manager in accordance with generally accepted accounting standards (based on the market value of the farm assets which are subject to a revaluation each year). In addition, the Manager will be paid a Performance Fee calculated as 20% of the amount by which the Investor Return exceeds 10%.”

As in a property trust this provides a very strong incentive to the manager to increase the asset base, even if it keeps paying too much for land and fixed assets, and many commentators think this is what PGW has done. However, with the skills and experience of the PGW Financial services management team, and if two boards do get themselves sorted, this could come right, albeit more slowly than planned in the prospectus.

Joe Turnbull

TELECOM CORPORATION AGM – 1ST OCTOBER

NZSA Proxies: 59 totalling 479,386 shares. (Additionally, 11 proxies were processed favouring the Australian Shareholders' Association for 22,000 shares that could not be taken up).

Again, an initial comment is appropriate. All shareholders who spoke at this meeting (with the exception of two at the end who represented former contractors of Chorus and a complainant living in Kawau Island) were members of the New Zealand Shareholders' Association. I am gratified and so, I am sure, are those on our Board at this performance. It justifies all the hard work that is being done by the directors and branches to increase our profile.

The chairman took some time in setting the stage and emphasising that the new Board is fresh and excited about the future. The CEO, Paul Reynolds, also expanded on this theme and took the opportunity to state that the Australian subsidiary AAPT business is

now cash positive. Staff complaints are taken personally and staff motivation is up 20% in most areas. The new catch phrase was customer relationships. As a fore-runner to the possible appointment of Dr Tim Rooke as a director, Bruce Sheppard asked about the maximum number of directors allowed and the chairman confirmed that the top number was 12 but advised the Board considered that 7 was sufficient at present.

Questions and comment to the Board covered the following:

Auditor - The chairman confirmed that the partner in charge of the audit was present at the meeting.

Director appointments to the Board - the chairman was asked to explain the procedure and he indicated it was very detailed and included where necessary the engagement of consultants. A subsequent follow up about directors' shareholdings brought forth the comment from Mr Semmoto that if allowed he would certainly be a shareholder of Telecom.

All directors including the Chairman who was up for re-appointment were asked to address shareholders for a short time. Dr Rooke, a Shareholders' Association member from the Waikato was allowed a good hearing and members certainly sought answers as to how he would assess the road ahead. His advice, in brief, was that it was now essential to undertake a management assessment of Board performance and report on a regular basis.

Directory services – One member asked how the Yellow Pages could be controlled now that Telecom had sold this business. The short answer was not a lot could be done except that telephonic directory services were still giving exceptional service.

Key performance indicators – This arose following a query from Bruce Sheppard dealing with the fall in EBIT, EBITDA, Operating Cash Flows and other indicators making it difficult for shareholders to comprehend the bonus assessments of executives. The chairman took us through the assessment process for key executives all of which seemed sensible and in line (almost) with our own policy statement on this topic but the figure still came out slightly North of shareholder anticipations. The presentation to the meeting on this subject can now be viewed on Telecom's website. Bruce Sheppard suggested that it seemed dangerous and morally hazardous to give performance benefits to the Chief Financial Officer but the CEO in response indicated that all executives had collective responsibility.

Dividend policy – This was raised by Bruce because imputation credits were no longer earned due to the lack of taxation payments available for credit. Related topics dealing with external software purchased of \$203 million included under Intangible assets and research and expenditure incurred were also discussed and received a less than satisfactory response from management. A written query on these matters next year may provide a clearer picture. It does appear strange that so much external acquisition of software is made when the group must have in their employ significant software expertise. The advantage taken for research and expenditure deduction for taxation purposes was also not indicated to shareholders.

Legal claims - These were discussed but no new information was provided to shareholders. The major topic received from the request for comment from shareholders in the annual report was the remuneration of the CEO and this item, as previously mentioned, was dealt with in detail by the chairman. The meeting lasted around 2 hours.

Oliver Saint

Proxies amounted to around 68 million shares of which some 99% were given to the Chairman. Total number of shares approx 190 million.

The chairman started the meeting by highlighting some of the key performances in the last 12 months:

NPAT \$16.7 million (2008 \$48.3 million) was down in a year when demand fell by 20-30%.

Asian earnings were up 120%, with China and Vietnam especially strong. EBITDA was up +68% in Asia, + 30% in the USA but EBITDA down -70% in NZ, -25% in Australia and flat in Europe.

Operating cash flows - up 61% to \$132 million - was a major achievement in such difficult trading conditions.

Balance sheet had been strengthened through \$159.6 million equity raising, reducing gearing to 20% from 49% at 30 June 2008.

The Chairman reported global improvement has started to appear, but it was still too early to say if this is sustainable. It was a different story 12 months ago when customers were cancelling orders or asking for delayed delivery. The speed of the downturn caught the company out. With the depreciation of the NZ dollar, the debt level blew out, at a time when capital raising was very difficult. It was then that the Institutions played hard ball before they came to the party to support the company's capital raising program. The chairman did point out having the head office in NZ has had a negative affect on NZ profitability, which results in the company being unable to pay dividends full imputation credits.

China and Australia are leading the way out of the recession with the USA, and Europe being stable, and NZ lagging behind. Most markets are still down some 25% from their peak. The company has maintained its market share and well placed to do even better with new products coming on to the market. They spend around 2.5% of turnover on R & D. It was reported by John Hirst the Managing Director that customer satisfaction was very high, and so the company is well placed when the market recovers. Raw material costs fell during the year which enabled the company to increase its gross margins offsetting lower sales volumes.

The company has strengthened its management team, now based in Sydney. Cost savings are being made throughout the company, with employees working reduced hours until volumes pick up. Inventories are moving down to meet the current demand and negotiations with suppliers have brought further savings. Last year the company's safety record continued to improve.

The MD then outlined the major influences affecting the company's performance in 2009/2010.

Controlling cost.

Ability to maintain gross margins.

Technology changes.

Regulatory pressures.

Emission trading scheme cost.

Reducing their interest cost which will still be around \$23 million in 2009.2010.

Finally the MD gave his EBITDA forecast for 2009/2010 of between \$100 and \$110 million with a NPAT of between \$36 and 40 million.

One of the highlights for me was seeing our NZSA members ask some very good questions relating to the capital raising and the lack of being kept fully informed of the many issues affecting the company in the past twelve months. Although Rob Aitkin gave

a very good presentation he certainly became flustered when answering some of the questions raised by our members.

Des Hunt

CONTACT ENERGY AGM – 22ND OCTOBER

After last years AGM Contact pulled out all stops to make sure this AGM was a quiet and non contentious affair. This has included engaging with NZSA prior to the AGM and providing us with a stand at the AGM.

Their strategy was generally successful with a quiet AGM attended by I thought 120 – 150 shareholders although the media reported 200.

Chairman Grant King spoke of the challenging year Contact has had with profit down, dividend steady and the outlook unsure.

CEO and director David Baldwin gave a very good presentation that explained clearly the causes of the problems and what Contact was doing to address them. In essence due to transmission constraints and the take or pay gas contracts in place Contact only does well in dry years when wholesale prices are high, lake levels low and they can take make good margins on their North Island gas fired plants.

The problems are being addressed with 1) a gas storage facility so they can store gas when they don't need to use it, 2) a gas peaking station that can be started quickly to supplement supply during peak hours when wholesale prices are high, and 3) Transpower's grid upgrade programme which will see a new Cooks Strait cable commissioned in 2012.

Surprisingly there were no questions on the financial results and the election and re-election of directors proceeded smoothly.

At general question time I read the open letter from David Walter, a shareholder unhappy with Contacts handling of the proposed Hauauru wind farm.

The only question of note was from a shareholder trying to extract a financial update from Contact for the first quarters trading and guidance for the full year. He was largely unsuccessful with all Contact would say was they are tracking ahead of the same period last year but don't read too much into that, and that they are comfortable with analysts forecasts.

OPEN LETTER TO THE DIRECTORS FROM DAVID WALTER

As a large and important foreign controlled energy company you have a duty to not misuse that power and influence. This should have been made plain to you last year when your customers voted with their feet in outrage over planned director fee increases.

But alas this culture of riding rough shod over the New Zealand public appears to be systemic within your organisation. Certainly that is the experience of the farmers, land owners and local community in the firing line of your proposed billion dollar Hauauru ma raki wind farm in the Waikato.

Your ham-fisted process has generated huge uncertainty and angst for the local land owners impacted by your plans to erect unsightly, noisy and potentially dangerous pylons and turbines through our farms that would stick out in an Auckland CBD skyline.

You claimed public good and urgency last year to get the then Labour Government to "call in" the project to put it on a fast track. You then picked off a couple of land owners who looked to be problematic, buying their land. You then came to the rest of us with a

huge wedge of material that only lawyers could penetrate and a truncated timeframe. Not everyone could afford lawyers to work through this dense material.

Having made the Government and local west coast community jump to your tune, you then showed extreme incompetence by not being prepared for the board of inquiry hearing, forcing a delay for a year whilst you gathered further information. This not only wasted our time but extends the anxiety for everyone. To cap it all off you now say that you are in no hurry and that it could be five years before you go ahead with this – so you effectively misled everyone, including the Government, so you could get your own way.

If such ineptitude is pervasive throughout your organisation, how can you hope to deliver shareholder value as you are charged to do? In that regard, we are certainly not surprised by reports of salary increases to Mr Baldwin at a time when the company's profitability and performance is not just down, but significantly down. The behaviour of this organisation is disgraceful.

Martin Dowse

Editor's note: While we are happy to ask the questions about Contact's ineptitude, NZSA does not have a view on whether the Waikato Wind Farm is feasible or desirable.

PUMPKIN PATCH AGM – 24TH NOVEMBER.

NZSA represented 19 proxies for 128510 votes.

Greg Muir – Chairman & Maurice Prendergast CEO indicated that the year was the most difficult in its trading history in which 15 of the 35 USA stores were closed. The USA closures including impairment of the existing stores incurred a \$40m write down resulting in an overall loss for the company of \$26.7m. Positives were that stocks have reduced (34%) \$42m and bank debt reduced \$63m to a very manageable \$18m. Excluding write offs profits increased 8% to 25m – a very creditable result. In answer to questions from the floor they said markets were still volatile and adjusting to strategies to meet the market conditions. PP had wholesale franchises in 22 countries and a new partner established in China with benefits expected in the 2011 period.

There was no full guidance for 2010 - they indicated stability returning to markets, Australian conditions improving and gearing up for further expansion with 30 to 40 new stores over 3 years.

The new Long Term Incentive scheme was approved replacing all previous plans.

Noel Thompson

Editors note: Greg Muir was not in the rotation for election this year and so our letter in the October issue opposing him was not applicable. We will be watching his actions closely for next year.

VECTOR AGM – 23RD OCTOBER

Around 300 shareholders attended the AGM. Michael Stiasny started his presentation by saying he was not buying the green shoots story, and expects operating conditions to be tough this financial year. As an example to others they are not looking for any increases in directors fees, and will be trying to hold employees wages to a minimum. "Growth in its core businesses of electricity and gas will be subdued, chairman Michael Stiasny told shareholders at the annual meeting."

Regulation would still remain a key driver of the business. In the last 12 months substantial cost savings were achieved but this trend will not occur in the coming 12 months. Shareholders were not given a profit forecast which was disappointing but perhaps reflected how difficult trading conditions are at present. The last three months

trading was affected by the warmer weather and subdued consumer and business activity. Simon Mackenzie seems to have settled well in to the position of CEO and his presentation indicated he had a sound knowledge of the issues facing the company. Vector made no secret of its ambitions in the deployment of a high-speed fibre network. Simon did not go into any detail, and so we must watch that space.

The re-appointment of directors was automatic with the consumer trust using its majority vote. Although there was a question regarding conflict of interest from one shareholder regarding the appointment of James Carmichael, it was immediately shot down by the chairman saying he did not see this as an issue.

Vector is paying out around 75% of its profit in dividends, so long as it can achieve a similar growth pattern in the future. It really is a dividend play for shareholders. With one shareholder, Auckland Consumer Trust, holding some 75% of the shares, independent shareholders are not going to influence key decisions.

Des Hunt

SKY CITY ENTERTAINMENT GROUP - 30TH OCTOBER.

NZSA representing a large number of proxies.

The Chairman Rod McGeoch and Nigel Morrison CEO summarised the results for the year. The underlying profit – up 13% at \$115m was a creditable performance considering the difficult economic conditions with the Adelaide Casino and Cinemas standout performers over the previous period. Staff moral has improved with staff turnover at 50% of previous year and there were 12000 people registered to work for the company. During the year the Balance Sheet was restructured with an institutional and shareholder issue raising \$228m to reduce debt. The Non-taxable bonus share distribution has been discontinued and fully imputed cash dividends restored. The dividend payout policy has been reduced from 90% to between 60-70%.

Further double digit growth was achievable building on the stronger management structure and improved IT systems.

The amendment to the Constitution was defeated due to widespread opposition from institutional investors who opposed the NZX relaxation of the Listing Rules especially the change that allows directors to participate in placements. Skycity retains the “long-form” constitution where they require shareholder approval for changes to comply with the NZX rules. Most other NZX listed companies have the “auto provision” amendment to their constitution.

Noel Thompson

Editors note: Sky City did as we advocated and instead of adopting autopilot, put each constitutional change to the AGM. The Institutions actually exercised their votes – hurrah! The more permissive changes recommended by NZX were voted down, by some institutional shareholders on the advice of Risk Metrics whose nearest office is in Australia.

MICHAEL HILL INTERNATIONAL – 6TH NOVEMBER

NZSA Proxies 806150

Although same store sales in NZ and Canada fell by 8 and 9% respectively, net operating profit was saved by the Australian business, which now accounts for 60% of total stores. Not one to waste a good recession, Michael Hill added a record 29 shops to the chain, including the 17 in the Chicago area, bought from a receiver. The massive 176% jump in after tax profit was occasioned by an interesting revaluation and sale of the intellectual property of Michael Hill from NZ to Australia. Michael Hill is a formula retailer, a la KFC. The formula has been developed over the past 30 years, and licensed to the individual

stores in the group. Australian tax regulations governing intellectual property have changed recently because of the globalisation of Australian business. Consequently, the transaction brought to book a deferred tax asset of \$52.9m, and naturally the main questions in the meeting concerned this.

Oliver Saint asked;” Were cheques raised; Is this a perpetual asset; Will it be affected by shareholder changes; How long will the asset last; Is it stated at a gross or discounted value; Why is it categorised as operating (p&l) rather than intangibles (b/s); Does it have imputation credit implications for NZ shareholders; Does it have the agreement of the NZ and Australian tax authorities?

He also drew attention to the huge consultancy fees of the auditors, PWC, whose audit fees were only \$300k, of the \$2.3m consultancy fees.

PWC’s partner explained that although cheques were not drawn for this internal transaction, the documentation surrounding it was thorough, involving two top valuers settling on a value for the IP of \$200m. Under IFRS rules the amount could not be discounted, although depreciation could be provided against the asset of 9-10% pa. Imputation credits for NZ shareholders were decreasing naturally as more and more operating profit was generated overseas. The transaction was logical with the head office located in Australia, and so the Australian Tax Office had given an irrevocable ruling for 10 years. Because the benefits would flow each year with certainty for 10 years, as a deduction from tax normally due, it could not be considered an intangible asset. One shareholder took exception to the auditors fronting on this question rather than the Financial Controller, but we pointed out that the auditor was the correct party to give an independent assurance to shareholders and this is allowed for in AGM procedures. After the heavy emphasis on accounting, Michael Hill’s personal enthusiasm for his new store format, and dream of becoming a truly global brand with Tiffany’s as the benchmark for quality and service at a great price was refreshing, as was the shareholders sweepstake by which Michael handed out several watches to the lucky winners.

Alan Best

PORT OF TAURANGA AGM - 22ND OCTOBER.

A very well attended meeting, as you would expect for this local company with its loyal, local shareholders.

All resolutions were passed by show of hands.

Written questions were well answered (not easy when you are asked to explain hedging contracts), as were questions from the floor.

Highlights for the company include:

A record profit for the year.

The container terminal, on independent benchmarking is about 25% more productive than any other Australasian port.

Both of the above were achieved with only one lost time injury.

The soon to be completed new harbour bridge will greatly enhanced access for road transport. This project is a real tribute to the abilities of Fletcher Building and the many local contractors that Fletchers used.

The continuation of improvements to the rail link to the South Auckland MetroPort For the future the Chairman and Chief Executive emphasised that:

The company is planning for the arrival of ships carrying up to 7000 TEUs (twenty foot equivalent container units), ships up to 347 metres long and 18 containers wide.

The company has the large amount of land for the necessary terminal expansion and development.

Dredging consent is being sought so that the port can progressively handle larger ships.

The company has a strong balance sheet with total assets of \$910m and debt about 25% of assets.

The diversified cargo types give a similar result as a diversified share portfolio. Sixty percent of cargo is not containerised but is bulk or break-bulk cargo including pallets of kiwifruit, timber product, coal and logs.

The first quarter of this financial year has after tax profit at about the same as at last year but this cannot be extrapolated into a full year result, although the company expectation is for a similar result for 2010.

The company will continue its public stand on the need for port rationalisation.

As proxy holder for NZSA I congratulated the company; on its excellent financial performance, on the terminal productivity and on the safety record.

Allen Smith

AUCKLAND INTERNATIONAL AIRPORT - 29TH OCTOBER

NZSA represented 78 Proxy holders.

Chairman Tony Frankham and Simon Moutter CEO presented. Underlying profit was up 2.1% to \$106m before a write down of \$64m in property valuations affecting the bottom line result. Since the appointment of the Simon Moutter in August 08 a new leadership team, mainly recruited from outside the company is now in place. The reduction in tourist numbers has affected profits although this has partly been offset by Jetstar and Pacific Blue increases on Trans-Tasman and domestic flights. Total passenger volumes declined slightly in the year. Aeronautical charge increases have been deferred from the July scheduled date due to the tough conditions facing airlines. The Commerce Commission plans to monitor these charges from July 2010. To preserve capital expenditure the 2nd runway construction has been put on hold until airline capacity increases.

Forecast guidance for 2010 –NPAT \$93m to \$100m. Retail sales are expected to be down. A new hotel at the Airport was well advanced in conjunction with outside interests. Capex reduced to \$65m excluding property development.

Questioners wanted more high profile activity from the company to obtain a rail link from the city to the airport for improved access, comparable with other overseas destinations. The shareholdings of the ACC and Manukau CC were questioned in light of the super city plan.

Noel Thompson

CAVALIER CORPORATION

NZSA proxies: 217,810 votes

Cavalier is busy swallowing Norman Ellison Carpets (only 5 months in this year's result,) and the deconsolidation of the wool scouring business (only 9 months in this years report.) Chairman Alan James drew attention to the improvement in debt/equity ratio to 42%, the reduction in stock and debtors, by \$14m, and the increase in shareholders funds by \$2.5m. Sales of carpet remain constrained, Ontera Carpet Tiles are on a plateau, and the benefits of rationalisation in wool scouring are being realised to plan. Wayne Chung (MD) did little more than restate these themes, but said that Cavalier is performing above its conservative budget, and should realise NPAT of \$13.5m to \$15.5m ie about level with the 2009 year. Cavalier is a good income stock maintaining its dividend payment 3 times each year.

Questions included comments on hedging of receivables which in Cavaliers case includes offsets of imports against exports, and manufacturing in the Ontera modular operation in Australia. Tom Cavanagh former Director of Wool services drew attention to the poor returns for NZ wool growers, resulting in dwindling sheep numbers, and the Chairman confirmed that it was in Cavalier's interest to have confident and profitable growers. Coralie Van Camp suggested that Directors should be seeking female representation on the board. Alan James pointed out that the senior management team includes several women and that the control of marketing and image are management not governance functions. In answer to a question on synthetic carpets, he claimed there was no new threat, and that the position of wool was as it had been for some years at the higher end of the market.

The retirement of Founder Tony Timpson from the board occasioned many appreciative comments on his career, and it was made clear that his special position as Founding Shareholder would entitle him to access to the company board and management meetings for some time to come.

Alan Best

MARLIN

Around 200 people attended the AGM and it was one of the more interesting AGM's with plenty of questions surrounding the make up of the fund going forward. A debate took place on the advantages of an open and closed fund. In the end the majority of shareholders voted they did not want any changes to the way the Marlin fund was set up. The surplus for the 2009 was \$6.2 million which all of it was achieved in the second half of the year. As of the 30/9/09 the asset value was \$1.05 per share. A few shareholders were concerned that the share price was so low to the asset backing during the year and why the company was not more active buying back there own shares. Others ask the question why not a larger dividend. These minority shareholders who made these comments should have realised when Marlin was launched it indicated it was a long term investor looking for growth not a dividend play.

Marlin performance in the last financial year was up +7.2% against the MSCI World Small Cap -13%. When looking at the companies they have invested in, last year the average earnings growth was some +20% with an average PE of 14. Even then Ken the investment manager, reported he felt they were still undervalued. They did sell 6 companies out of the portfolio which were replaced with a similar number of new ones. Key areas of growth will come from China and Asia. In China it is estimated some 300 million people over the next 20 years will move into the cities.

Marlin is increasing its weighting in the health sector. This sector has under performed in the last twelve months. Another area of opportunity is USA companies who have a global strategy. The Chairman did state it was time to rejuvenate the board and this will take place in 2010. A shareholder did nominate Bevin Killick but he failed to get appointed.

Des Hunt

ING PROPERTY TRUST -

NZSA representing 316967 shares.

Chairman Bill Thurston and David Carr General Property Manager presented.

Distributable profits fell slightly and the quarterly dividend at 8.5c pa is forecast to be maintained for 2010. Weighted average lease term is 9 years reflecting the stability of longer leases in the health sector. Gearing at 35.7% was below its ratio for bank lending covenants with bank facilities locked in until March 2011.

A recent announcement that the ANZ Bank is to purchase the ING Property Group was commented on with another possible "Brand" change for the Trust (previously from Callan to ING) and change in Directors. The Trust manager ING Medical Properties Ltd is already 50% owned by ANZ Bank. In questions from the floor with 100% ownership of the bank administration and lending rates shareholders felt vulnerable and there was a request to have a majority of independent directors on the board of the Trust. The Chairman agreed to consider this when the changes took effect.

Noel Thompson

EBOS GROUP AGM – 22ND OCTOBER

This AGM was well attended by shareholders who appeared to be pleased with the Group's performance: net profits to June 2009 of \$19.7m compared to \$16.7m the previous year. Managing Director Mark Waller indicated that net profits for 2010 of about \$23m were expected. With over 75% of their current revenues arising in NZ with the remainder from Australia and the Pacific (mainly PNG), Mr Waller suggested that expansion over the next five years was likely to target Australia through acquisitions. He anticipated that eventually revenues from Australia would match those from NZ. Referring to the Government's announced Review of Hospital Boards aimed to improve efficiency and achieve a 1% saving, Mr Waller thought that such efficiency gains would be assistance to EBOS.

On the issue of debt levels which Bruce Shephard had raised with the company earlier in the year (see the NZSA web site) confidence was expressed in the on-going arrangements with the ANZ bank and attention drawn to the reduction in the Debt to Debt+Equity ratio to 19.6% in June 2009 from 32.0% a year earlier.

The tone of questions from the audience was very supportive of the Board and appreciative of the company's continuing sound financial results.

Robin Harrison

ABANO HEALTHCARE GROUP - 8TH OCTOBER.

2009 was highlighted by a number of successes, including a record NPAT of \$9.7 million, generated on revenues of \$187.2 million.

The meeting focused on the sale of NZ Audiology business, with shareholders voting in favour of the sale to National Hearing Care for \$157.8 million. Abano will receive a capital profit of over \$70 million which will be used to retire debt and make a capital return of approximately \$53 million to shareholders.

Part of the proceeds from the sale will be invested into Abano's growth businesses in audiology in Australia and Asia (Singapore, Hong Kong and Malaysia), dental in NZ and Australia and radiology in NZ. Siemens will be their strategic partner in Asia.

All resolutions were passed.

Jacquie Staley

Fletcher Building would not be the first listed company to choose Dunedin after a poor year. In fact, Scottish immigrant James Fletcher, settled in Dunedin, his first building project was a weatherboard house handed over to Mr and Mrs Green 100 years ago. The house is extant in Broad Bay, Otago Peninsular, and so the centenary, not the company's performance was the reason for the Southern venue.

Chairman, Dr Roderick Deane pointed out that New Zealand was already in a recession when the rest of the world suffered financial collapse, resulting in a huge decline in housing, commercial building and access to bank finance. Fortunately for Fletcher Building, the collapse was relieved to some extent by Australian and New Zealand Government stimuli.

According to Rod Deane, for the past year the company concentrated on three things: Cash flow performance, downsizing, raising new equity. A stable income, similar to the previous year, but net income was down considerably, cash flow up by 23%, 10.8% return on equity, 11% on funds invested and a reasonably acceptable 38 CPS, compared to 45 CPS the previous year and a total return on shareholding of 14%. During the year the company went through some capital restructuring with three tranches of shares to repay bank debt. "While the institutions did well out of this," Rod Deane commented, "Ordinary shareholders were also able to participate so that they did not dilute their shares too much." He added that the share price had increased since the issues, which reflects on the underlying soundness of the company.

Rod Deane finished his presentation by announcing he is to retire on 31 March 2010 – after 11 years as Chairman and 16 years on the Board. He noted that when Fletcher Building listed in 2001 it was ranked 17th on the NZX – and it is now No. 1.

Hugh Fletcher presented shareholders with a potted history of the company, describing its essential strategy as being primarily a building company. The company's involvement with raw material production, manufacturing distribution and retail is seen: "to enter boldly but also to withdraw quickly when politics or economics have turned adverse." Hugh Fletcher added, "In my mind (Fletcher) Construction's contribution has been much more than its 5% of total group profits. It is also the source and soul of Fletcher's culture." He finished with a couple of quotations, the first from his father, "There is no finer accolade than to be called a builder." And the second from his grandfather, "Never build a building you have to run past."

CEO, Jonathan Ling gave shareholders a pretty forthright presentation. In effect, the Trans-Tasman Government infrastructure, (plus some good news from parts of the Asian market) pretty much saved Fletcher Building's bacon for the year. And he expressed the opinion that in the USA in particular, there will be no significant commercial recovery soon. In a phrase, Fletcher Building is in for another tough year.

After the Board's presentation there were no questions from the floor, leading Rod Deane to quip "We should have all our AGM's down here...."

The Shareholders' Association was reasonably well represented at the meeting. Dunedin member Roscoe Lord took on the roll as Association's proxy, Bill Whitaker was also "badged-up" and present. Coincidentally the three of us sat next to Lindsay Rountree another Association member from Rakaia.

For the record, the Association held roughly 593,738 proxy votes. This is not a lot when you consider there are 604,466,028 on issue, but is roughly 0.1% of the issued shares, and could have been a significant number of votes to cast if there had been any contentious issues at the meeting. As proxy, Roscoe held 175,872 abstention votes relating to the ratification of a share top-up.

Interestingly, after the formal business of the meeting Sir Dryden Spring made some cutting remarks about the constraints of the Securities Act in both NZ and Australia, that

limit the value of shares to retail investors without issuing a prospectus. Effectively, Fletcher Building's "Top up Offer" (the subject of the abstention votes) enabled most of the shareholders constrained by the Securities Act limits to participate in the issue proportionate to their holding. As a by-product of the scheme, smaller shareholders under the "Shareholder Purchase Plan/Top up Offer" were able to participate in the offer beyond their natural entitlements. To Sir Dryden Spring's knowledge, this was the first use of a "Top UP Offer" in conjunction with an SPP or Shareholder Purchase Plan. The company, he felt, had taken a lot of trouble to ensure smaller shareholdings were not diluted.

In general, the New Zealand Shareholders' Association appears to be held in high regard by the company.

Tim Kerr

POSTIE PLUS GROUP AGM – 27TH OCTOBER

NZSA Proxies: 68000 votes for 5 shareholders

Postie Plus Group Limited comprises the retail businesses of Postie+ and Babycity. Postie+ sells 'value for money casual family clothing' through a chain of over 80 stores; and Babycity caters for the needs of babies through a chain of 20 retail stores.

Addresses (published in the Annual Report)

Peter van Rij (Chairman) essentially said that the Company is now profitable after the "worst loss in history". Sustainable savings have been made in distribution and warehousing; inventory of improved quality is now on a 2 to 4 week timeline. Expansion of Babycity and Schooltex is planned; they are selling Waimate Knitwear to focus on their core business. No dividends.

Ron Boskell (CEO) identified a sales result of 2½ % for the year with an increase of 15 % in sales for Q1 2010; with improvements not based on unsustainable discounting. Contract Logistics (warehousing and distribution) has produced savings of \$1m in the first year.

Jane Kiely addressed the meeting mentioning the 'Now, that's smart' and her new 'Live, Love, Play' campaigns. It was obvious why she has the role; very personable.

NZSA Comments/Questions

I reviewed the Company website prior to attending the meeting. Noting an omission I called the Company and was provided with the document. I note now that very recently updated Code of Ethics, Communications, Corporate Governance, Shareholder and Stakeholder policies are available.

Directors standing for reelection (van Rij and Smart) both made good, clear statements to shareholders before resolutions were put to the vote. Shareholders were encouraged to participate and were reminded that they are the owners of the Company. Not having been to an AGM of this Company previously, I left with positive feelings.

Shareholder Comments/Questions

Q: When will dividends be paid? Shareholders have been very patient.

A: Will do so as soon as possible; must build up reserves beforehand; want two profitable half year results first.

C: PPG made a first half profit in 2004 and 2006 – Please stop talking about first half losses.

A: Noted.

Q: Staff get a 20% discount; why not shareholders also?

A: Noted; and

Q: When can we expect dividend?

A: Too hard to answer as gives guidance. Earliest would be EOY.

Q: You make statement that you have increased market share; how do you know?

A: We use BNZ database of retail sales.

Q: Has the new development at Botany been effective?

A: Yes. About 18 months to see ROI as opposed to usual 6 years.

Q: Late balance date for PP. First half goes well; second not so well – altering balance date would spread over year?

A: Our immediate priority is to enter the Christmas season ahead and make a good fist of that.

Margaret Murray

SKELLERUP HOLDINGS AGM – 28TH OCTOBER

NZSA proxies: 492,752.

“Choose companies you understand,”- Warren Buffet’s advice.

For non-engineering shareholders the summaries of diverse manufacturing locations, and component products was at times bewildering. However when you understand industrial marketing to Original Equipment Manufacturers (OEMs,) it is simpler. Skellerups is a specialist manufacturer of componentry in rubber and polymers in two divisions – 1. selling into the agricultural market focused mainly on dairying, and 2. selling into the industrial markets from factories in New Zealand, Australia, Italy, China, and Vietnam. What they develop with industrial specifiers as part of a finished product, may take years to be sold into the end user market. Hence there is a high emphasis and control over product development as part of work in progress.

Skellerup got itself into shape before the recession, divesting 5 non-core business, integrating Gulf Rubber into the overall business, developing vacuum pump componentry from its Chinese plant, and integrating Tumedai - synthetic couplings particularly for the auto industry in Italy. It had a good platform but was still caught by the depth of the downturn amongst its industrial customers.

MD, Donald Stewart gave a strong presentation,(worth a look on the website,) and then called on Scott Thomson (heir to the Gulf Rubber shareholding,) to expand on the opportunities in the rubber coupling markets, dominated by SGF with 80% of the world markets, while Skellerup has only about 4%.

Questions from shareholders raised issues of FX hedging, Goodwill on acquisitions, price and timing of the capital raising, and operations in China. Liz Coutts (Chair of the Audit Committee) pointed out that the purchase of raw materials in foreign currencies offset the need for hedging sales. A good summary of hedging contracts is contained in the annual report. Donald Stewart justified the \$49m of Goodwill by the earnings of the acquired subsidiaries and the prospects they represented as the market recovers. Commenting on the Chinese market Stewart also pointed out that the factory there was aimed mainly at export but that the prospects for strong local development especially in dairying were

not being ignored. Both Cushing and Stewart got off lightly as no dividend will be declared for the second half year, but debt levels are now down from over \$100m 2 years ago to \$42m in October 09.

Sir Selwyn Cushing conducted an open meeting, allowing a valedictory from Graham Frazer, a short speech from David Mair (elected unanimously) and exposure of senior staff. It seemed that our pre-meeting email comments on the need for board renewal had provoked a reasoned, if predictable response.

Alan Best

BRANCH REPORTS

AUCKLAND

On 11th November, the branch held its AGM, attended by about 100 members. John Hawkins as acting chair summarised our activities for 2009 and promised another interesting programme of meetings and company visits for 2010. In particular the branch has been successful in getting the NZSA education program up and running with 6 courses held in the second half of 2009 and a commitment from Glenfield College CE to continue our classes in 2010. The committee welcomed new members, Phil Kavanagh and Stewart Walker. National Chairman Bruce Sheppard spoke of the need for a strong Auckland Branch Committee. He also suggested as a means of rejuvenation that the grey-haired members (most of those present) bring along their offspring to a families meeting for 2010.

Sky City CEO, Nigel Morrison, spoke in more detail of his company's current activities. While the one-armed bandits of Auckland pubs and nightclubs had taken less in 2009, Sky City's Auckland gaming had remained level meaning the group had increased market share. He explained that while the class 4 clubs and pubs contained 70% of the problem gambling, it was Sky City that was most heavily regulated. This was not the case in other jurisdictions, such as Adelaide, where the "duality of purpose" (profit and community) was developed. Nigel also explained how Auckland marketed to "mid-tier Whales" with cheque cashing and other facilities increasing the number of international visitors who can bet up to \$150 k on a hand! Sky City's strategic priorities included realising the potential of existing assets. The Cinema chain for example had increased revenue by 14.3% and has been sold subsequent to the meeting. Other challenges include revitalising existing casino sites, securing growth in Auckland,(in spite of government constraints,) coping with the smoking ban in Darwin, solving the joint-venture (Skyline) dilemma in Christchurch, further enhancing Adelaide, controlling capex tightly and building employee advocacy to become an employer of choice in the industry.

John Hawkins

Editors note: Other comments on Sky City may be found amongst the Company Reports Thanks to Noel Thompson for his thorough note taking in Auckland.

WAIKATO

Richard Clarke, Senior Private Banker from The National Bank spoke to us in October on "Investing for Income and Growth" covering bonds and cash investments.

Richard was a lively and genial speaker whose talk was wide ranging – certainly more than his topic suggested. The handout and PowerPoint slides gave us some useful information to digest and to take away. Richard was generally confident about investing prospects and in the National Bank Private Banking team to identify economic trends and investment opportunities. An interesting and informative evening that will certainly have lifted the profile of National Bank Private Banking in Hamilton.

In November we were addressed by Alistair Ryan, Chief Financial Officer of Sky City.

Alistair gave a very slick presentation of Sky City overview, 2009 highlights, first quarter

2010 update and strategic priorities with PowerPoint and supplementary handout. Alistair fielded many questions during the presentation without missing a beat. Alistair seemed really on top of his game, as might be expected from someone who has been with the Group since inception.

All aspects of the business are performing well despite the recessionary environment. The cinemas would still be sold if a good buyer could be found. (Subsequent to the presentation Sky City has announced they are selling the cinemas.) The equity raising in April/May has lowered and smoothed out the debt profile – with no bank debt. Only modest capital expenditure is envisaged, with the Darwin Casino resort development due for completion in 2013, being the largest. If the South Australian Government were amenable, Adelaide Casino would be re-sited for profitable advantage. The only cloud on the horizon is the smoking ban due to be introduced in Darwin 2/01/10.

In New Zealand, Alistair thought the political change had at least now allowed the Group to engage in dialogue with our political masters. Detection of problem gamblers was not an easy task.

Tauranga Branch kindly invited us to The Australian Foundation roadshow presentation, which some of our branch attended. Our appreciation to Tauranga for extending the invitation.

On December 2 we hold our Xmas Dinner with Brian Gaynor as guest speaker. We look forward to this with great anticipation. A great ending for the year.

On behalf of Alex Eames and the Branch Committee, a Merry Xmas and happy New Year to all NZSA members.

Robert Foster

BAY OF PLENTY

On Friday 6th November Mr Alan Clarke Managing Director of Abano Healthcare Group Ltd travelling from Auckland to provide a presentation for the 32 Tauranga members attending. Alan informed us that the company due to the sale of its audiology business would see \$70 million of capital returned to shareholders through various payments in the near future. Debt will be less than 30% once these transactions are completed. Looking toward the future the Abano Group is expected to have a revenue stream exceeding \$150 million and a predicted EBITDA of around \$20 million.

He spoke eloquently about the future and the potential markets for their remaining businesses. A lively question period ensued - all handled in good humour.

Our Christmas function was held for 50 members recently where 55 attended. This was a pleasant social occasion and enjoyed by all. Our guest speaker was Mr Ivor Masters, General Manager, New Zealand Post Philatelic Division. His light hearted topic was “Stamps Are a Superior Investment Compared to Shares.” A display of early New Zealand stamps was provided for guests to view.

Howard Zingel who had conducted the Share Pick 5 competition for 2009 announced the winners who for their “guessing” skills won bottles of wine donated for the event.

Our last activity for 2009 saw two senior management staff – Ross Barker / Geoff Driver from Australian Foundation Investment Co visit Tauranga where they hosted 130 NZSHA members and AFIC shareholders to their biennial NZ circuit. This is the first time the company has visited Tauranga. Their detailed presentation well supported digitally, not only provided a guide to the activities of AFIC but covered the wider aspects of their diverse Australian market. AFIC was founded in 1928. During its 81 years in business they have only missed paying a dividend once and that was in 1929. They are the largest listed investment company – LIC - in Australia. Their investment portfolio exceeds A\$ 4.6 billion. One of their guiding tenants is to buy and hold for the medium to long term and

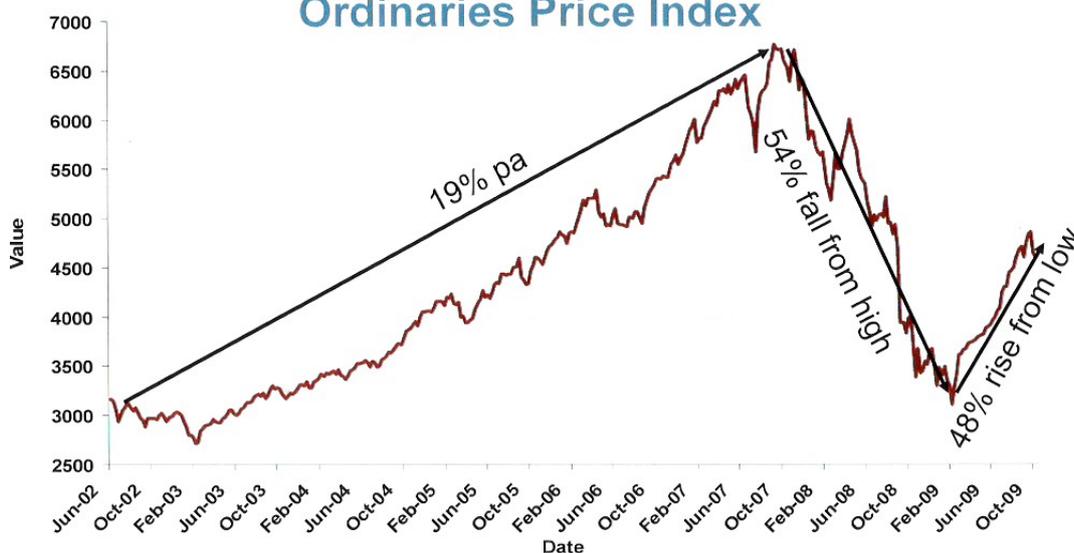
not resale. Borrowings are around A\$50 million. Their management expense ratio is a low 0.19%. Of their 91,000 shareholders over 8,000 are resident in New Zealand.

Their top ten securities – A\$ - 31st October were

	\$M	% of Portfolio
1. BHP Billiton	533.8	11.5
2. Westpac Banking Corporation	480.9	10.3
3. Commonwealth Bank of Australia	442.7	9.5
4. National Australia Bank	271.1	5.8
5. Rio Tinto	227.9	4.9
6. Wesfarmers	212.8	4.6
7. Woolworths	177.6	3.8
8. Telstra Corporation	166.2	3.6
9. ANZ Banking Group	144.5	3.1
10. Woodside Petroleum	114.9	2.5

Table 1. What Happened in the Australian Market – All ordinaries Price Index.

What Happened in the Australian Market - All Ordinaries Price Index



They spoke of the future outlook with the following comments:

- # Monetary and fiscal stimulus is helping the Australian economy.
- # Australia facing higher interest rates which may impact the sustainability of growth.
- # Many developed economies still face major structural issues.
- # Australian companies appear well positioned but their outlook comments are still generally subdued.
- # AFIC has some cash but will be cautious given the recent strength of the equity market.

Allen Smith

WELLINGTON

It's been a busy year and it's not over yet! The highlight was undoubtedly the National AGM in Wellington. Thanks everyone for the great support you all gave in attending and/or helping organise it and to our sponsors First NZ Capital and Sharesight

(www.sharesight.co.nz). Also a big thank you to Barry Lindsay and FNZC for their ongoing support in hosting our monthly meetings.

We have run seven branch meetings so far this year and have had great turnouts for all or them. At our last branch meeting Stephen Franks came along and briefed us on the activities of the Capital Markets Task Force and Tax Working Group and we are looking at how we can have input into these groups. Next week we have Tower's head of NZ Equities Paul Robertshaw coming along to talk to us about investment strategies. For our final meeting this year on the 10th November we head off to Times Cinema in Lyall Bay for our branch end of year function.

Martin Dowse - Chairman

Editors Note: for more detail on NZSA submissions to the Capital Markets Task Force read John Hawkins commentary Behind the Scenes

CANTERBURY

These past two months have been busy for the Canterbury Branch with a number of company AGMs (details elsewhere in the Scrip) with committee members attending and representing as proxy-holders for members. We succeeded in attending not only the Christchurch AGMs but also had representatives at Westport for the PRC meeting and Dunedin for FBU. A notable success was the visit to Christchurch on October 11th by Kevin McCaffey who had accepted an invitation to fly down from Auckland to address graduate students in Finance at the University of Canterbury and agreed to stay on that evening to talk to NZSA members on company governance issues. His was an excellent presentation, much appreciated by a good turn out of our Branch members.

The Committee held its usual monthly meetings to discuss event, evaluate outcomes and plan for upcoming activities. We have been mindful that as the only active committee in the South Island we should try to encourage greater involvement by members in other SI areas. To facilitate this committee member Margaret Murray has been in contact with members in Otago and at the top of the South Island. This has already resulted in representation at company AGMs in Dunedin and Blenheim. We are hoping to encourage more active satellite grouping in the future.

Finally, we have organised an end of year "Christmas" event in Christchurch for members on Monday 7th December. It is intended to be entertaining and maybe even educational - with a prize or two thrown in. As always check our "Events" section under the Canterbury Branch heading of the NZSA web site for more information.

Robin Harrison - Chairman

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MEMBER'S ISSUES

TAXATION – AN INSIGHT AND TIMING

Members attending the AGM of Michael Hill International may at the time have wondered why I had so many queries relating to the huge credit that allowed the Company to present a really fantastic result when fellow retailers were being presented with difficult trading conditions.

I thought it might help readers if I set out why the Board was, for a moment, taken aback by my questions. Maybe the first complaint, and certainly the one the Board are entitled to feel discouraged about, is the matter was raised without warning. After all the Board had taken the trouble to provide shareholders with a prepaid questionnaire for the very purpose of researching answers so that the meeting could be fully informed. Those who know me are aware I seldom ask questions that have not been raised with the Board previously. I have been a share market investor for far too long not to appreciate that trying to obtain answers to important questions from Boards at AGMs seldom works to the advantage of shareholders if they are surprised. Chairmen are usually too sharp to be caught out and will have one of a dozen replies available for such situations. In fact I had fully intended going to the meeting prepared to congratulate the Company on a result achieved under difficult conditions. However during that week and, to the detriment of practically everything else, I was busy reading and trying to come to terms with the Westpac Banking Corporation annual report. This is a massive document and when you are looking for something in particular it is very much like seeking a needle in a haystack. What I was after was comment about a \$1 billion provision for a tax appeal against a transaction that had occurred as long ago as 2003. I found that it was referred to in just two places in the report and in neither place did it cover facts in sufficient detail for me to come to a conclusion as to the way it had been treated in the accounts. The response from the chairman at the AGM on 16 December will be interesting but I received a comment from Westpac outlining the announcement made to the ASX some time ago. The announcement said:

"We have always believed that the transactions were commercially justified and complied with the law. This is particularly so because Westpac obtained a ruling in 2001 from the Commissioner of Inland Revenue in New Zealand in respect of a similar transaction which confirmed Westpac's view that a transaction of this type satisfied all tax laws and in particular was not tax avoidance."

I was advised by the Company that:

"Accordingly, we followed due process by seeking a binding ruling from the NZ Inland Revenue Department on a single transaction and then relied on this ruling for similar transactions." It is worth adding that Westpac was the only bank to obtain a binding ruling.

As I was driving to the Michael Hill AGM at Ellerslie, I was wondering about the integrity of a taxation system that is prepared to give a ruling about a transaction and then take the Company to court after it had been consummated. Then I related this case to the windfall that Michael Hill was able to obtain thanks to some sharp work by their auditors. (Anybody reading this will hopefully now realise that auditors do have benefits in other ways aside from their pure auditing work.) Fortunately I arrived at Ellerslie with at least a full 15 minutes to spare and began scribbling (in capitals!) some of the questions that should be presented to the Board given my deep suspicion of Taxation authorities both in New Zealand and Australia.

I hope this short piece will allay fears that I have changed spots and decided to provide surprise packages at AGMs. My apologies go to the Michael Hill Board on this occasion; the Beacon award will hopefully provide a surprise of more pleasant proportions.

Oliver Saint

Editor's reply: Auditors' benefit, yes; but in MHI's case, at a cost of \$2million for steering that IP transaction through.

We have some feedback from UK and Australia to suggest that provided the questions are not an ambush, it is better to announce your questions from the floor of the AGM than to submit them in writing before hand. After all the board, management and auditors are all more familiar with the accounts and activities than shareholders, and it's good to have

their reaction, as well as a reply that is not simply a prepared PR exercise. So members; Keep up the good questions!

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